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SUBJECT: CAMBODIAN MONEY LAUNDERING VULNERABILITIES
HIGHLIGHTED BY EXTERNAL AUDIT

¶1. (SBU) SUMMARY. An external assessment team recently rated Cambodia as falling far short of international financial regulatory standards and described government officials as being in a "state of denial" about the potential for money laundering. Poor coordination among Cambodian government agencies and donors, distrust of the police, and lack of political will all hamper efforts to prevent money laundering. Casinos, banks, and real estate transactions are not effectively policed, although many international banks effectively implement stringent company policies on financial regulation. Cambodia is the only ASEAN country without an anti-money laundering law, and prospects for passage of a law in the near term are uncertain. SUMMARY.

¶2. (SBU) The Asia-Pacific Group (APG), a regional financial standards body similar to the G8's Financial Action Task Force, and the World Bank (WB) recently completed a joint assessment of Cambodia's financial regulatory system. While results will not be announced publicly until after the plenary session this summer, two team members, Lindsey Chan of the APG and Andrew Clayton of the Hong Kong Police, gave Poleconoff an informal readout of the assessment. Separately, National Bank of Cambodia Deputy Governor Neav Chanthana also provided her impression of the process and results.

"A State of Denial" about Potential for Financial Crimes

¶3. (SBU) Overall Cambodia falls far short of APG standards. Out of 40 areas assessed, Cambodia was largely compliant in 2, partially compliant in 6, and non-compliant in 30, according to Neav Chanthana. (Note: Two areas were deemed to be inapplicable. End Note.) While Chan and Clayton felt certain that this could not have come as a shock to the Cambodian government, Neav Chantana expressed surprise that the country did so poorly in the assessment and that only effectively implemented legislation--not draft or unenforced laws--could have a positive impact on the assessment.

¶4. (SBU) Clayton and Chan expressed overall frustration with Cambodia's weak attempts to police its financial sector, saying that the Cambodian government was in a "state of denial" about the potential for money laundering in Cambodia and that the National Bank didn't sufficiently understand or take ownership of the problem. They noted that a sound anti-money laundering regime requires excellent intra-governmental cooperation, but ministries who are supposedly cooperating in the Financial Intelligence Unit do not appear to be working well together. Moreover, neither

the National Bank of Cambodia nor individual private banks trust the police. Government officials conveniently blame their lack of action on the lack of an anti-money laundering bill, but in fact they could be doing much more to effectively regulate the financial sector in the absence of such a law. For example, an existing law requires that banks perform "know your customer" checks and record transactions over a threshold to be defined by the Ministry of Economics and Finance (MoEF). However, the MoEF has never defined this threshold and as a result no transactions have to be reported.

Potential Money Laundering Avenues Unchecked

15. (SBU) The government is largely ineffective at policing potential avenues for money laundering, Chan and Clayton stated. The MoEF's casino management section told the APG/WB team that they can not effectively police Cambodia's casinos because nearly all are located along Cambodia's borders and they do not have funding to travel. Many of the international banks appear to be doing a relatively good job of policing themselves, but most limit their interaction with law enforcement; choosing, for example, to close an account and refuse to make a suspicious transaction rather than alerting the police to the attempted activity. In contrast to lax enforcement in other areas, Chan and Clayton noted relatively good monitoring of international NGOs, which can potentially serve as instruments of money laundering.

16. (SBU) Real estate transactions are essentially unregulated and represent an accessible route for would-be money launderers, according to the APG/WB assessment. Despite a new real estate licensing law, few realtors are licensed. There is no objective assessment of property values and 60%

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of all real estate transactions are done in cash, even those involving hundreds of thousands of dollars or more, making it easy for someone to claim to have bought a property for USD 100,000 and sold it for USD 1 million. Moreover, many landowners choose not to register their land in Cambodia, as unregistered land is common and registration requires the payment of a 4% registration tax.

17. (SBU) Chan and Clayton also noted that lack of donor coordination and follow up hampers the effectiveness of foreign assistance designed to build Cambodia's capacity to prevent and detect money laundering. Different donors have drawn on different legal traditions in assisting with the drafting of financial and criminal laws, leading to laws that sometimes conflict or fail to fully address the issue. Moreover, donors are quick to send Cambodian government officials to conferences and training sessions about financial regulations--the head of the Banking Supervision Department of the National Bank travels one week a month, they noted--but there is little on the ground follow up or pressure from donors on participants to apply what they have learned.

Prospects for an Anti-Money Laundering Bill Unclear

18. (SBU) Cambodia is the only country in ASEAN without a money laundering bill; prospects for passage of a long-delayed draft bill are unclear. Clayton and Chan believe that if the legislation is not passed by May 15--the deadline for any change in Cambodia's financial regulation to be reflected in the APG assessment--it is unlikely that there will be significant pressure to pass the legislation until the next APG assessment several years from now. In contrast, National Bank Deputy Governor Neav Chantana professed optimism. She reported that the National Bank Governor had met with the relevant National Assembly committee last week to explain the importance of passing the bill promptly, and Neav Chantana predicted that the bill would soon be submitted

to the plenary session and passed. (Note: Cambodia's narcotics law already outlaws money laundering related to drug trafficking. The draft anti-money laundering law merely defines money laundering rather than criminalizing it. Cambodian government officials told the APG/WB team that outlawing other types of money laundering would have to be done via changes to the criminal code. End Note.)

Comment

19. (SBU) The APG/WB assessment tracks with what banking sector contacts routinely tell us: while many in the financial sector are honest, Cambodia's financial regulatory system is full of holes that could easily be exploited. Reputable international banks--which are bound by strict rules from their parent companies and, in some cases, financial disclosure statements required by stock exchanges where they are listed--are probably the least vulnerable of the actors in Cambodia's financial services sector. However, areas like casinos and real estate, which are not scrutinized by a well-respected parent company, are likely routes for would-be money launderers. It is unfortunate that the assessment team did not investigate or meet with officials from the Khmer/Canadian-owned Canadia Bank, one of Cambodia's largest banks and widely alleged to have lax financial monitoring systems. END COMMENT.
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